

Message Text

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ACTION SS-15

INFO OCT-01 EA-06 ISO-00 XMB-02 COME-00 EB-07 TRSE-00

ERDA-05 CIEP-01 SP-02 L-02 AID-05 FEA-01 ACDA-05

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 2028

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FOR UNDERSECRETARY ROBINSON

PASS EXIMBANK FOR CASEY

PASS COMMERCE FOR DOBBYNS

E.O. 11652: N/A

TAGS: ETRD, ENRG, RP

SUBJECT: PHILIPPINE NUCLEAR POWER PROJECTS

REF: (A) MANILA 2722; CASEY LETTER MAR 19 TO AMBASSADOR

1. FOR MORE THAN 18 MONTHS PHILIPPINE POWER AUTHORITIES HAVE BEEN SEEKING TO REACH AGREEMENT ON A NUCLEAR POWER CONTRACT WITH THE INITIALLY SUCCESSFUL BIDDER, WESTINGHOUSE. EARLY IN THIS PERIOD, FOR REASONS OF ENERGY CRISIS AND RELATED UNCERTAINTY ABOUT MANY COMPONENT PRICES, IT WAS REASONABLE TO EXPECT THAT WESTINGHOUSE WOULD HAVE TROUBLE COMING FORTH WITH ANY VERY FIRM PRICE QUOTATIONS. FOR A TIME, MOREOVER, WESTINGHOUSE EITHER RIGHTLY COULD CLAIM OR TACTICALLY COULD USE THE FACT THAT PRIVATE COMMERCIAL FINANCING HAD NOT BEEN ARRANGED FOR MAJOR PARTS OF THE PROJECT TO ATTEMPT FURTHER BARGAINING WITH THE FILIPINOS. AT THE SAME TIME, HOWEVER, THE

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FILIPINOS WERE RELUCTANT TO ENTER FINANCIAL MARKETS WHEN

INTERESTS COSTS WERE RISING AND WHILE THE FINANCING CAPACITIES OF EXIMBANK WERE UNDER LEGISLATIVE REVIEW. THE RESULT HAS BEEN DELAY AND RISING COST, BOTH CONTRIBUTING TO A GROWING CONCERN AND IMPATIENCE OF GOP LEADERS WITH FINDING WAYS NOW TO PUT THIS PACKAGE TOGETHER.

2. THE EMBASSY AND THE U.S. FIRMS INVOLVED (WESTINGHOUSE, BURNS AND ROE, AND EBASCO), AS WELL AS THE FINANCIAL CONSORTIUM (FNCB, AMEX AND MHT) HAVE BEEN ON NOTICE FOR SOME WEEKS THAT GOP WISHES TO PRESENT ITS NUCLEAR POWER PACKAGE TO EXIMBANK FOR FINANCIAL SUPPORT BEFORE THE END OF APRIL. IN THE JUDGMENT OF PRACTICALLY ALL CONCERNED, AN APRIL-MAY SUBMISSION IS ABOUT AS TIMELY AS IS LIKELY TO BE POSSIBLE IN THE NEXT YEAR OR SOM IN AID PRESUMABLY OF PROMOTING SUCH A PRESENTATION, WESTINGHOUSE MADE A GLOBAL, THAT IS AN OVERALL PROJECT PRICE OFFER A FEW WEEKS AGO.

3. AS THE EMBASSY UNDERSTANDS THE SITUATION FROM BOTH GOP AND WESTINGHOUSE SOURCES, ANY PROSPECT OF GETTING THIS PROJECT BEFORE EXIMBANK IS NOW HOPELESSLY BOGGED DOWN IN THE ADAMANT REFUSAL OF WESTINGHOUSE TO EXPLAIN ANY PART OF ITS PRICE OFFER. THE PHILIPPINE GOVERNMENT ON THE OTHER HAND REFUSES TO ACCEPT THE WESTINGHOUSE OFFER WITHOUT SUPPORTING COST DETAILS. AT THE SAME TIME, WESTINGHOUSE HAS GIVEN A SINGLE UNIT PRICE WHICH IS \$80 MILLION, OR 10 PERCENT OF THE FOREIGN EXCHANGE COSTS MORE EXPENSIVE THAN THE PER UNIT COSTS OF TWO UNITS OF THE SAME SIZE; WESTINGHOUSE ALSO HAS BEEN ADAMANT IN REFUSING TO BREAK DOWN THIS VERY LARGE PRICE DIFFERENCE.

4. IN THE PAST TEN DAYS THIS PROJECT HAS MOVED TO A CRUNCH PARTLY BECAUSE THE ELEMENTS OF GOP MOST COMMITTED TO BUYING U.S. NUCLEAR TECHNOLOGY ARE IRRITATED BY THE WESTINGHOUSE ATTITUDE AND ARE HAVING TROUBLE EXPLAINING IT TO THEIR COLLEAGUES AND TO THE PRESIDENT. MOREOVER, PHILIPPINE FINANCIAL AUTHORITIES ARE HAVING NOT UNEXPECTED SECOND THOUGHTS ABOUT BITING OFF SUCH A LARGE AND LUMPY PROJECT, ESPECIALLY WHEN OTHERS, E.G. THE FRENCH AND THE GERMANS ARE OFFERING NUCLEAR PLANTS OF SMALLER SIZE, LOWER PRICE AND OF CORRESPONDINGLY MORE DIGESTIBLE FINANCING PROPORTIONS. THE LIMITED OFFICIAL USE

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FRENCH RECENTLY HAVE BEEN VERY AGGRESSIVE IN THEIR PRESENTATION HERE, WE UNDERSTAND MRS. MARCOS WILL BE VISITING WEST GERMANY IN THE NEXT FEW WEEKS AND MAY WELL BE FOLLOWING UP ON RECENT OVERTURES FROM A MIX OF FRENCH AND GERMAN SOURCES.

5. WE ARE AWARE OF LICENSING ARRANGEMENTS BETWEEN U.S. AND EUROPEAN FIRMS LIKELY TO BE INVOLVED; THIS MIGHT INDUCE

SOME INDIFFERENCE IN PITTSBURG AS TO WHO FILLS THE ORDER,
AND IT COULD WELL BE THAT WESTINGHOUSE IS VERY RELAXED
ABOUT ITS ORDER BOOK AS ONE SOURCE RECENTLY HAS SUGGESTED.
IT DOES NOT SEEM TO US, HOWEVER, THAT WE SHOULD LET THIS
LARGE AND IMPORTANT FIRST PHILIPPINE NUCLEAR PLANT PROJECT
GO BY DEFAULT TO PEOPLE WHO WILL ONLY PAY US LICENSING
FEES WHEN WITH A LITTLE PROPER FOCUS AND ATTENTION WE CAN
CAPTURE THE VALUE OF BASIC PLANT FOR TWO OR MORE UNITS WITH
FOLLOW ON GOODS AND SERVICES.

6. THIS EMBASSY HAS PUT A GOOD DEAL OF TIME AND EFFORT
INTO KEEPING THIS PROJECT MOVING. IN ORDER TO PUSH BEYOND
THIS POINT, HOWEVER, AND ESPECIALLY TO DISCHARGE OUR OBLIGATIONS
TO ALL CONCERNED, WE NOW NEED TO KNOW WESTINGHOUSE

INTENTIONS A GOOD DEAL BETTER THAN IS BEING COMMUNICATED TO
US HERE. WITHOUT ATTEMPTING TO DECIDE WHETHER WESTINGHOUSE
TACTICS ARE WISH OR NOT DOES WESTINGHOUSE REALLY WANT THIS
BUSINESS? IF SO, CAN WE EXPECT A PROMPT, HIGHER LEVEL ATTENTION
TO THE OBVIOUS NEED TO SORT OUT REMAINING DIFFERENCES WITH
THE FILIPINOS? IF NOT, WE UNDERSTAND THAT GE IS PREPARED TO
RENEW ITS OFFER AND NO DOUBT COULD SUCCEED IN BEATING OUT
EUROPEAN COMPETITION.

8. WE REQUEST THAT MATTER BE REVIEWED WITH WESTINGHOUSE
PITTSBURG AND THAT AN EFFORT BE MADE ONCE FOR ALL TO
DECIDE WHETHER THEY INTEND PROCEED ON THIS PROJECT ON
THE TIMETABLE OF GREATEST INTEREST AND IMPORTANCE TO THE
PHILIPPINES. IF WESTINGHOUSE IS GENUINELY INTERESTED, WE
URGE THAT THEY ASSIST AS REPIDLY AS POSSIBLE THE
COMPLETION OF GOP'S PRESENTATION TO EXIMBANK BY PROVIDING
NECESSARY SUPPORTING INFORMATION.

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